Comments of Robert Grace

DTE 03-100

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I am pleased to offer the following comments in response to the proposed NSTAR Green program filed for approval with the DTE. I am providing these comments from a dual perspective as an NSTAR residential customer, and as an expert in the field of renewable energy markets and policies. Since 1998, I have run a consulting practice, Sustainable Energy Advantage, LLC serving clients in the public, private and non-profit sectors, helping those clients build markets, polices and businesses relating to renewable energy. I have served as lead consultant to MA DOER on the renewable portfolio standard, and in that role have conducted the most comprehensive examinations of regional renewable energy supply and demand. I have served on the NEPOOL Generation Information System working group (representing the Union of Concerned Scientists), and have assisted renewables SBC funds in several states in building the conditions conducive to markets for renewable energy. And I have advised or supported wholesale and retail renewable energy marketing efforts in several states and Canada. Prior to establishing my consulting practice, I headed up the first retail green power marketing effort in the state, at AllEnergy Marketing Company. ReGen, the product that resulted from that effort and the first "green certificate" offering in the region, is still offered today from Conservation Services Group. Prior to that, while in the wholesale generation marketing group at New England Power Company, I developed for the company a wholesale renewable power business plan that was never launched due to the company's decision to divest its generation. In summary, the topic of this proceeding has been the focus of my professional life since 1997. It is from the perspective - of one who has been trying to help develop viable markets for renewable energy where I live and work - that I hope to offer a constructive critique of the NSTAR Green filing.

In addition, because I am a likely customer of whatever turns out to be the most credible green power offering to be made available to NSTAR Electric customers, I seek the opportunity to comment on potential concerns with the NSTAR filing that may preclude me and others like me from effectively fulfilling my preferences as an electric consumer.

The positions and opinions expressed here are my own.

Introduction

The introduction of a Green Pricing option by NSTAR Electric is a positive development. A substantial number of NSTAR customers – including the author– have been waiting for the opportunity to make a real green choice of electric supply since the restructuring act in 1997. NSTAR should therefore be commended for taking the initiative to voluntarily propose offering a green option to its customers.

The basic approach to structuring a green offering proposed by NSTAR - acquiring and providing NEPOOL GIS certificates to bundle with the electricity provided by NSTAR's wholesale suppliers for customer served under Standard Offer Service or Default Service – is one

of the most effective means to make renewable energy available for voluntary purchase by small electricity customers. However, the approach proposed by NSTAR Electric is problematic for a number of reasons:

A. NSTAR's proposed role as sole provider of green power to standard offer and default customers is inconsistent with its role as a common carrier under competitive industry structure. It creates an anticompetitive barrier to entry to other companies offering a structurally identical product;
B. Insufficient details are provided to judge the specific product in terms of price and quality, to judge the effectiveness of marketing and educational support for the offering, or to assess the impact on non-participants;
C. The proposed product is a weak and unappealing offering from the perspective of retail customers who may be interested in buying green power;
D. The approach is unlikely to be as effective as alternative approaches involving third party providers in stimulating demand;
E. The manner of procurement by NSTAR does nothing to support financing of new renewable generation; and
F. The approach undermines the effectiveness of approaches in every competitive market in each surrounding state and territory.

Each of these shortcomings is discussed in detail below.

As a result of these many factors, I believe that there are no conditions under which NSTAR should be the sole party allowed to offer a green choice to its standard offer and default service customers through its distribution bill, and there are compelling reasons to believe that alternative approaches involving third-party suppliers will be far more successful.

But NSTAR's filing presents a tremendous opportunity to create a market for high quality green product offerings in a manner that will stimulate an effective and sustainable market demand for renewable energy, in a manner consistent with the competitive market structure in place in Massachusetts. All of the benefits cited by NSTAR in its filing can be gained without creating an anticompetitive barrier to entry, by allowing renewable energy certificate (REC) suppliers to have access to the NSTAR Bill, subject to minimum standards of product credibility. Modification of the program to allow for third party access to NSTAR's billing system (either on an open basis or as a result of a competitive solicitation for perhaps three offerings), set minimum product standards, and provide mechanisms through NSTAR to educate customers and get the word out (not necessarily leading with a Massachusetts Electric-style ballot) can make it far more effective, and perhaps more effective than approaches taken in neighboring markets. By making these changes, NSTAR Green could be a success and NSTAR could achieve all of its stated objectives, including satisfied customers.

A. NSTAR's Proposed Role is Inconsistent with Market Structure and an Anti-Competitive Barrier to Entry

Marketing of green power by the distribution utility to retain customers on standard offer or default service is completely antithetical to the spirit of the Restructuring Law, which took

distribution utilities in Massachusetts out of the commodity business and limited their role to that of common carriers and providers of last resort.

Perhaps more importantly, the approach is anticompetitive. Monopoly access to the lowest cost manner of providing green power (that is, selling RECs layered upon a no-risk commodity supply, while billing and collecting through use of NSTAR billing system) is an unfair barrier to entry. Several companies are currently offering a comparable service to small customers in NSTAR territory – NEPOOL GIS RECs – but are not allowed access to the NSTAR bill. These include local aggregators Massachusetts Energy Consumers Alliance and Conservation Services Group. Based on interest or participation in programs in green power programs in neighboring states or territories, others are likely to enter the market if given the opportunity on a level playing field (perhaps from among regional and national players such as Community Energy, Sterling Planet, Green Mountain Energy, and EAD Environmental).

There is extensive experience nationally and internationally with green pricing. However, there is a reason why this model has never been pursued in a market in which retail choice is the law of the land. As argued by Conservation Services Group and CSG Services in written comments in Connecticut DPUC Docket NO. 03-07-16 (at page 3), models elsewhere (that NSTAR is emulating) are "specifically designed to meet the needs of customers who are served by vertically integrated utilities. Since customers in CT are not served by vertically integrated utilities, it is unlikely, over the long term, that a similar model will best meet either their needs or the needs of the competitive market. CSG urges the Connecticut DPUC to focus on program models in jurisdictions that have restructured electricity markets, when looking for models of green power programs". The same arguments apply to the Massachusetts market.

NSTAR's sole justification for consistency with Department precedent is its reference to DTE 02-40-B at 46 (2003). In that order, the Department stated that any distribution company that sought to provide customers with an option to purchase renewable power must "clearly demonstrate that providing such product is compatible with the development of competitive options for the customer classes to which the product would be available". In arguing that its proposal is consistent, NSTAR first notes that NSTAR Green would only be available to residential and small C&I customers… that have been provided "relatively few options". They argue that the NSTAR Green proposal will allow customers to make a choice relating to generation service that is not currently available. This statement is simply untrue. Other marketers of renewable energy are already offering renewable energy certificates in NSTAR territory (which is what NSTAR would be selling), and other marketers have shown that they will enter neighboring territories if allowed access to a distribution company billing system. Yet NSTAR proposes to maintain discriminatory access to the monopoly distribution company billing system. As a result NSTAR's sole rational for its providing this service to the exclusion of others does not hold up.

Other aspects of NSTAR's proposal are also anticompetitive:

?? NSTAR proposes to price based on underlying cost plus the market cost of certificates, without any markup. It is not compatible with development of competitive options if the overhead and marketing costs are carried by non-participants. Entrants into the market will have to recover these costs. Having non-participants carry the charging additional costs of

procurement, risk management, management and administration, and marketing to participants is anticompetitive (as well as unfair to non-participants). NSTAR has provided no cost of service study or other evidence to suggest the magnitude of these costs (nor has it indicted the nature of marketing it would engage in to promote the program).

?? Finally, NSTAR has made no discussion of transition out of this role. Rather, they propose a two-year "marketing window" starting January 2004. How does NSTAR propose to transition out of this role? Or does it? How can new entrants evaluate entry into the market with these uncertainties hanging in the air?

?? NSTAR representatives have contended that the proposal is not anticompetitive, by suggesting that green power marketers could freely compete with a competitive green electric supply offer that requires customers to leave NSTAR's Standard Offer or Default Service. However, this does not represent a level playing field. Other marketers who seek to do what NSTAR is proposing to do – bundle RECs with commodity electric supply – do not have the luxury of access to buy wholesale commodity electricity at no price or quantity risk to themselves, in contract to the risk-free nature of Standard Offer and Default Service supply to NSTAR.[1]

B. The Filing Contains Insufficient Details for Evaluation

The filing presents insufficient details to judge many aspects of the program.

?? The filing contains no detail on the price of the offering or its specific content, so that one cannot judge whether the combination of price and quality is reasonable compared to available benchmarks.

?? The filing contains no information on how, or to what degree, customers will be educated regarding the offering, and the nature and level of marketing that NSTAR would undertake to support the program.

?? The lack of detail on education and marketing make it impossible to assess the cost impact of the program on non-participants.

The latter two points are interrelated. In arguing that charges would reflect no cost other than the cost of GIS certificates, NSTAR implies that either (a) it will not put any effort into outreach and marketing, which raises concerns that this will be a token effort; or (b) they will devote substantial effort to marketing and outreach and place those costs on non-participants. Either case raises concerns.

As noted above, NSTAR has filed for approval of a rate while neither providing the actual rate, defining the product, nor supporting the rate with an allocated cost of service study. In order to properly evaluate what is proposed, NSTAR should produce a full cost of service study consistent with standard rate design principles, to justify the proposed rate. Such a study should include all NSTAR Green-related costs property allocated. Ignoring for a moment the litany of arguments why NSTAR should not be allowed to offer its own branded offering in a competitive

[1] Of course, if NSTAR were to make wholesale Standard Offer or Default Service supply available to other REC marketers on comparable terms to allow competitive suppliers to actually compete on a level playing field (similar to a tactic used at the outset of retail competition in Ohio) that would be little different than allowing REC marketers comparable access to the NSTAR billing system.

market structure, if NSTAR contends that it can deliver a quality product cost-effectively, it must demonstrate that it can do so for reasons other than that it has shifted costs which must be born by competitive entrants to distribution customers. The following costs must be properly allocated and accounted for:

?? marketing costs, including an appropriate share of the costs of developing and printing bill stuffers and any other marketing materials;
?? allocated administrative, management and overhead costs;
?? procurement and certificate portfolio and risk management costs;
?? contracting costs;
?? legal costs and regulatory costs, including costs of complying with DTE disclosure regulations;
?? an allocated share of billing costs at least equivalent to the EDI costs borne by competitive suppliers;
?? staffing for the product manager and all those involved in developing marketing materials;
?? training, salary and overhead costs for customer service representatives who will respond to customer inquiries on NSTAR Green[2];
?? If NSTAR were to consent to offering a third-party certified offer, these costs would need to include certification and audit costs.

C. Concerns with NSTAR's Proposed Product

While individual customer preferences vary, a review of experience with green marketing and green pricing throughout the country and the world indicates that the highest quality and most successful green power offerings are those that:

?? support the greatest quantity of incremental renewable energy generation (or preserving that generation that would not survive absent such support) for a given price;
?? feature the greatest quantity of the types of renewable resources that customers prefer (as demonstrated by a large volume of market research and experience), generally zero-emission wind and solar;
?? make a tangible cause-effect relationship related to the addition of specific new resources within reasonable proximity to the customer (and enabling the financing of those plants); and
?? are supported by active education and marketing, coupled with a company's long-term commitment to the product and the resources.

In addition, the hopes expressed by many customers who best understand the advantages of renewables is to capture the "hedge value" of most renewables, i.e. their costs are unrelated to movements in fossil fuel prices, so that as fossil fuel and electric prices rise, the premium needed to support these renewables should fall. I am continuing to work with the New York State Energy Research and Development Authority to bring green power offerings into competitive markets that can serve as a long-term price hedge, similar to the successful green pricing programs in Austin, Texas and Eugene, Oregon.

[2] Note: green marketers have reported a much longer than average call duration for questions regarding green power products. NSTAR should allocate customer service time that reflects this phenomenon.

The NSTAR Green proposed product offering, as far as it has been described by NSTAR in its filing and other representations, is a relatively weak and unappealing offering relative to other options likely to be available, and by virtue of demanding monopoly access to the lowest transaction-cost manner of delivering a renewable energy certificate-based product, excludes offerings with potentially greater appeal.

The NSTAR Green offering appears to be comprised primarily of landfill methane or other unspecified renewables, generally unappealing to voluntary purchasers of green power, dressed up with trivial amounts of wind or solar (the types most desired by small customers). At 25%, it offers a low overall proportion of renewables (although to NSTAR's credit, this is relatively high proportion of usage from new renewables). But experience in green pricing and green power throughout the country show that there is not a single idealized customer and no ideal product: customers have a range of interests in the green power value proposition[3], may prefer different quantities or types of renewables, be more or less limited by budget constraints, and have different levels of preference for proximity of the generation sources. Given the choice, many customers may want to buy 100% of their usage from renewable energy. In situations where customers are given the choice of 100% or 50%, for instance, a substantial fraction, and in some cases a majority, have chosen 100%.[4]. Finally, the NSTAR offering would not be eligible for certification under the Green-e certification standard, a standard set in negotiations with a wide range of stakeholders as a minimum level of credibility.

The structure of the program excludes from comparable market access a number of potentially more appealing value propositions, for example:

- ?? products with substantial content from renewables that customers are most interested in, such as several of the offerings in the National Grid GreenUp program or REC market with far higher percentages of wind power than NSTAR will include;
- ?? products with higher levels of new renewables (some GreenUp products have 30-50% new renewable content);
- ?? offerings by non-profits (that assuage the concerns expressed by some potential green power customers that their premiums are going to corporate profits rather than supporting renewables); or
- ?? offerings that pass along the long-term hedge value of renewable to customers in the form of prices that fluctuate inversely to commodity electricity costs (NSTAR proposes to price based on underlying Standard Offer or Default Service price plus the market cost of renewable certificates.

Finally, the National Association of Attorneys General has promulgated ENVIRONMENTAL MARKETING GUIDELINES FOR ELECTRICITY (December 1999) that outline guidelines to assure that customers are not misled in course of marketing the environmental characteristics of

[3] Market analysts have segmented the market into a variety of customer types by factors such as beliefs, lifestyles, or motivations, each of which may have different interests and preferences. NSTAR may be targeting a product suited for customers not so easily motivated, while the early adopters may desire a much stronger value proposition.

[4] While this information is typically considered proprietary, and I have not had the opportunity to thouroughly study this phenomenon, two marketers have confidentially shared their (admittedly limited) experience with offering 50% and 100% of usage products. One reported that ~20% chose the 100% product; the other reported that roughly half chose the 100% offering.

electricity offerings. This document offers a number of principles and examples, which are not adequately addressed by NSTAR's proposal:

?? Deception: "A claim is deceptive, and therefore unlawful, if it contains an express or implied representation or omission of fact that is likely, or has a tendency, to mislead consumers. An express claim directly makes a representation…. The omission of information may also be deceptive in certain circumstances. Deception can occur through the omission of information that is necessary to prevent an affirmative representation from being misleading."

?? Overstatement of Environmental Attributes: "An environmental marketing claim should not be presented in a manner that overstates the environmental attribute or benefit, expressly or by implication. Marketers should avoid implying a significant environmental benefit if the benefit is in fact negligible."

✍ *Dressing up a product with a dominated by landfill methane with a trivial percentage of solar and/or wind, without clear prospective disclosure as to the relative proportions of this mix of drastically different qualities, may be considered deceptive.*

?? Substantiation: "Any party making an express or implied claim that presents an objective assertion about the environmental attributes of an electricity product or company must, at the time the claim is made, possess and rely upon a reasonable basis substantiating the claim."

✍ *On what basis does NSTAR represent that they can sell a product containing any amount of new wind? Where will it come from? At what cost? If it is limited in quantity relative the amount NSTAR expects to sell, will NSTAR be clear that quantities may be limited?*

?? Qualifications and Disclosures: "In order to be effective, any qualifications or disclosures should be sufficiently clear and prominent to prevent deception."

✍ *NSTAR has provided no clear prospective price and source content disclosure.*

Any other party offering green power must take care to follow these guidelines or risk legal action for deceptive practices, there is no reason that NSTAR should not be held to the same standards.

D. Ineffective Compared to Approaches Involving 3rd Party Suppliers

Perhaps most importantly, NSTAR's proposed approach, offering its own option exclusively, is unlikely to be as effective as alternatives available to NSTAR (with effectiveness measured as the creation of sustainable demand supporting the greatest quantity of new renewable energy generation). Third party firms that specialize in the renewable energy business have both the knowledge and experience, and the ability to market aggressively in contrast to the environmental characteristics of standard offer and default service supply that NSTAR does not possess. If given that access, those firms which know far more about renewables than NSTAR and have invested heavily in their specialized niche business can market green power far more effectively in partnership with than NSTAR than NSTAR could do alone.

<u>The advantages of renewable energy certificate sales via the utility bill are maximized by the presence of competition</u>**.** The approach to structuring a green offering proposed by NSTAR involves acquiring and providing NEPOOL GIS certificates to bundle with the electricity provided by NSTAR's wholesale suppliers for customer served under Standard Offer Service or

Default Service. Earlier this year, I performed an analysis of green pricing experience in Oregon and New York (Niagara Mohawk) for the California Energy Commission. To summarize that study's conclusions: From a supply perspective, acquiring certificates and bundling them with commodity supply in this manner offers several significant advantages relative either (a) provision of competitive green electricity supply or (b) direct sales of "green tags" or renewable energy credits (RECs) backed by such GIS certificates to end users, because:

- ?? RECs reduce complexity, risk, transaction costs and necessary capital requirements for suppliers, and
- ?? provision of the service on customer bills is far more attractive to customers from the perspective of credibility (consumer confidence that three will be no negative reliability impact), simplicity (one check to write), appeal and understanding (connectedness to electricity use, relative to billing for RECs independently)

However, these benefits can be magnified in a program of competitive green power offerings made available by and through the utility, through the provision of RECs to utility customers that are invoiced through the utility bill.[5] For example:

1. Benefits of competition can be captured in the absence of retail (switching) electricity competition, including:
    a. Differentiation from standard utility supply is more likely in a competitive environment than under a single green pricing choice offered only by the distribution utility;
    b. Competitive pressure tends to improve the value for a given price;
    c. Competitive positioning increases customer awareness and increases credibility of a new product offering;
    d. Product differentiation will offer a portfolio of products appealing to a wider array of customers than a single offering;
2. The administrative ease of RECs is meshed with the credibility of a utility green pricing program with the potential for vastly superior market penetration (and lower customer acquisition and retention costs) compared to traditional RECs products sold independently of the distribution utility;
3. Such and option can serve as either a smooth transition to the possible future evolution of a competitive direct access mraket, or as a substitute means for effectively developing a green power market in the absence of a successful direct access market for small customers.
4. This option does not require switching electric suppliers, eliminating the burden of educating customers that their reliability will not be compromised if they switch suppliers.

[5] From "Appendix C. Oregon and New York REC-Based Utility Buy-Through Programs", from "CUSTOMER CREDIT ACCOUNT RESEARCH AND ANALYSIS SUPPORTING THE CALIFORNIA ENERGY COMMISSION'S RENEWABLE ENERGY PROGRAM PREPARATION OF THE CUSTOMER CREDIT ACCOUNT REPORT FOR THE LEGISLATURE", prepared under contract to the California Energy Commission by the XENERGY Contracting Team (Julie Blunden, Bob Grace, Jan Hamrin, Meredith Wingate, Ryan Wiser), January 23, 2003.

Comments in Ongoing Connecticut Proceeding Underscore Advantages of Multi-Supplier Model. Connecticut legislation (Public Act 03-135) authorized the Connecticut DPUC to establish an Alternative Transitional Standard Offer (Alternative TSO), which would include, but not be limited to, an option that consists of the provision of electric generation services, provided by a competitive supplier or suppliers, that exceed the renewable portfolio standards. In October 2003, the DPUC requested comments regarding the bidding process (Docket 03-07-16), and specifically asked for comments on whether Alternative TSO electric service should be supplied through the distribution company or by third party suppliers. All commenters addressing this question responded in favor of multiple third party suppliers. Paraphrased comments included:

?? Customers should be able to choose from one of several "green" options that promote renewable generation… Allowing multiple vendors also increases the scope of products offered, which provides customers with more choices and can lead to higher participation rates. (Connecticut Office of Consumer Counsel)

?? Allow multiple suppliers to participate and compete for customers. This should enhance the market and increase consumer participation. (Environment Northeast)

?? Use 3rd party suppliers of RECs, as distribution companies don't have the skill sets or motivations to do a good job (Community Energy)

?? Maximize the educational benefit of the Alternative TSO by using this opportunity to introduce consumers both the concepts of choice and the companies they will be choosing to buy from. (Conservation Services Group)

?? The electric distribution company must not be permitted to directly offer Alternative TSO products, and should be restricted from giving preferential treatment to a particular Alternative TSO product. (Dominion Retail)

?? Use of 3rd party suppliers is preferable, freeing distribution companies from having to devote considerable time and resources to the sourcing of green power or certificates and the marketing of green power to its customers. Third party renewable energy suppliers typically have great expertise in marketing green power and can handle much of the supply and marketing responsibilities… (EAD Environmental)

E. NSTAR's Procurement Approach Does Not Help New Renewables

A review of NSTAR's RFP for renewable certificates demonstrates a lack of understanding of the workings of the renewable energy market. By buying renewable energy certificates on the short-term market in a manner similar to the procurement of Standard Offer Service, NSTAR is not driving any investment in, or market support for, new renewables. This approach, relative to available alternatives, is ineffective in supporting the development of new renewable generators. Furthermore, NSTAR's certificate contract included with the RFP places quantity risk on the supplier of RECs which, in this market environment of scarcity, risks either (a) a significant risk premium built into the REC prices offered to NSTAR, (b) the possibility that NSTAR will oversell the certificates actually delivered by the REC supplier, or (c) the possibility that the REC supplier will be unable to meet NSTAR's quantity orders. IF NSTAR has amended its contracts to relieve suppliers of quantity risk, then NSTAR should provide these contracts so that the Commission and Parties can properly evaluate the proposed program.

Furthermore, the approach is highly atypical, and shows a disturbing lack of understanding of the renewable energy market. Utility companies that have offered monopoly green pricing throughout the nation generally put forth an offering after lining up specific supply supported by long-term commitment -- either the utility's investment or through long-term contracts sufficient to support project financing. In contrast, NSTAR is putting out an offering when it has no idea where it will get the supply. NSTAR is not actually driving any change when buying short-term spot in a tight market rather than supporting those projects long-term. In lieu of evidence to the contrary, one might assume that NSTAR is (due to the current scarcity of the RPS-eligible supply) buying certificates at inflated prices from those who have complied with RPS and are willing to resell over the ACM price.

In contrast to NSTAR's approach, at least some of the marketers wishing to enter the green power market appear willing to make whatever longer term commitments their creditworthiness can bear, or have in other ways partnered with developers to work to bring new renewables on-line. My experience with assisting clients both buying and selling RECs and/or renewable energy indicates that those buyers able to make longer-term commitments can acquire new renewables at lower cost than the inflated prices to be paid for by NSTAR in the short-term, scarcity-induced market. While NSTAR is the most credit-worthy player on the market, and therefore best positioned to offer longer-term contracts to renewable generators that may help with project financing, they have been unwilling to offer such contracts. While suppliers of renewables that play in the wholesale market have every incentive to arbitrage between retail and wholesale markets, selling RECs to the highest market (which is where NSTAR shops), retail sellers of RECs committed in the long-term to building a sustainable retail business model strive to purchase their supply at lower cost and may well price their offerings accordingly. As a result, it appears that NSTAR is paying more for its REC supply than some third party REC suppliers.[6]

F. NSTAR's Approach Undermines Development of a Regional Market for Green Power

The rest of the northeast is developing models that allow customers choice among third-party suppliers of RECs.

- National Grid subsidiaries Massachusetts Electric, Narragansett Electric in Rhode Island and Niagara Mohawk in New York have committed to allow marketers of RECs access to their billing system, as well as providing a ballot as a bill stuffer to facilitate marketing the options.
- Connecticut legislation (Public Act 03-135) authorized the Connecticut DPUC to establish an Alternative Transitional Standard Offer (Alternative TSO), which would include, but not be limited to, an option that consists of the provision of electric generation services, provided by

[6] By buying short-term rather than long-term, one could question the prudence of NSTAR's procurement for RPS compliance for Standard Offer and Default Service. For example, prices offered to MTC for long-term commitments under its Green Power Partnership Program demonstrate that longer-term commitments can result in significantly lower REC costs than the costs NSTAR may seek to recover for its RPS compliance. While they have shown no inclination to do so, if NSTAR were to offer longer-term contracts that allowed it to buy RECs at lower prices, then such lower prices should first be passed along to all NSTAR Standard Offer and Default customers as a lower cost of RPS compliance, before being offered to voluntary customers.

a competitive supplier or suppliers, that exceed the renewable portfolio standards. The Act requires the DPUC to develop options in a contested case in which it shall determine the terms and conditions of Alternative TSO, and requires the two distribution companies to conduct a DPUC-supervised bidding process. In October 2003, the DPUC requested comments regarding the bidding process (Docket 03-07-16). Nearly all comments filed in support of choosing multiple suppliers (some arguing to limit to no more than three), while none suggested limiting to a single option or the utilities themselves. Likewise, the filed comments demonstrated universal support for branding of the suppliers. Supporters of these concepts included the Office of Consumer Counsel, Environment Northeast, Conservation Services Group, Community Energy, Sterling Planet, the Connecticut Clean Energy Fund, EAD Environmental and Dominion Retail, all either representatives of consumer interests or entities anxious to compete to serve small customers. All but Dominion Retail advocated for the type of service that NSTAR has proposed, that being provisions of RECs to be bundled with the electric generation provided under the Standard Offer.

- The Long Island Power Authority is preparing to launch a NiMo-like multi-supplier program.
- The New York PSC is considering ordering all distribution utilities under its jurisdiction to implement the Niagara Mohawk green pricing program model, expanding that model to the entire state.

NSTAR has proposed to implement a monopoly approach to green pricing in the midst of a competitive market. If such a program is implemented, NSTAR will have such advantages of cost, brand name recognition[7] and monopoly access to the distribution bill, creating barriers such that competitors will be unable or unwilling to enter the Boston-area market. This will, indirectly, undermine the effectiveness of approaches taken in every competitive market in each surrounding state and territory, eliminating hope for regional consistency. Carving the greater Boston area out of the market may result in excluding the largest and densest media market. The effectiveness of green power programs elsewhere in the Northeast would be undermined by preventing market entrants from gaining critical economies of scale and accessing the market with the most desirable demographics and most cost-effective media concentration for marketing.

Finally, while I am not (in principle) opposed to trying new ways of doing things, trying a new model is best left for a pilot-scale exercise, particularly given the presence of willing market entrants. The thing about pilot programs is that they are not traditionally attempted on a arket-wide basis or in the largest media markets, but rather on a limited and controlled scale, for good reason: if they fail to achieve the desired results, far less harm is done. The Boston area is as good a demographic market for green power as any in the nation. It is a very inappropriate market for what, in essence, should be a pilot program.

Improving Upon the Multi-Supplier Model

The Massachusetts Electric GreenUp approach has positive attributes, but can be improved upon. NSTAR Electric's filing presents a tremendous opportunity to create a market for high quality

[7] I note here that distribution utility affiliates are prohibited from using the monopoly brand; I fail to see why the same standard would not apply here.

green product offerings in a manner that will stimulate an effective and sustainable market demand for renewable energy, in a manner consistent with the competitive market structure in place in Massachusetts. Given the demographics of the greater Boston area, a program built on best practices could have the effect of creating a vibrant market. At the very least, some number of third party suppliers of RECs should be given equal access to billing for RECs through NSTAR billing system (similar to the Massachusetts Electric approach, which is perfectly compatible with NSTAR's EDI procedures). Improvements to the Massachusetts Electric approach would address:

?? ***The Lack of educational support***: The GreenUp launch was not supported by general education on the benefits of renewables or messages to the general public that would motivate the purchase of renewables. Through the Clean Energy States Alliance, MTC as well as several other state renewable energy funds in the northeast have invested in developing a renewable energy marketing and branding campaign expected to lead to the rollout of public service announcements with compelling messaging to educate and motivate the general public to purchase renewable energy. This campaign is expected to be ready for launch and available to Massachusetts this spring. The resulting public service advertisements could greatly leverage success of a green power program in NSTAR territory. (this factor should be considered in the timing of the launch of any program approved by the DTE).

?? ***The limitations of the check-off ballot***: The "check-off" ballot may not be the most effective way to market the program. It is difficult to get sufficient information onto a ballot (particularly one that must fit in a small billing envelope) to adequately avoid misleading impressions and explain the features and benefits of offerings, allowing customers to making educated choices based on complete and accurate information. With so little information available due to space limitations, there is little other than price to differentiate offerings, and quality differences (such as new renewables and location) may not be adequately distinguished. The process may also tend to encourage unsustainable offerings (loss leaders, etc.). We don't run political elections by putting out the ballot and then trying to educate the public and run campaigns… we educate the public on the issues and make appeals, then the populace reacts through a ballot. A superior approach may rely on other avenues for outreach and education, to be followed by a ballot that serves a more limited purpose – enabling enrollment only, without bearing full responsibility for all education, marketing and product differentiation as well.

?? ***Minimum quality standards.*** Some concerns have been expressed about the lack of minimum quality standards in the GreenUp program. The lack of such standards is not an inherent characteristic of a multi-supplier model, but a design choice made by Massachusetts Electric (perhaps in response to supply constraints). There is no reason NSTAR cannot put forth a multi-supplier program that is not anti-competitive still maintain a high entry standard, e.g. high minimum percentage of renewables, or new renewables, or exclude renewables currently under long-term PURPA contracts, etc. Like Oregon and (probably) Connecticut, providers could be selected through a competitive process.

?? ***Limit the number of offerings***. In the Connecticut Alternative TSO docket described above, some commenters argued that (to limit confusion) the number of suppliers be limited to perhaps three. While I do not advocate for or against three as the appropriate number, there

may be benefits to creating a slate of offerings with a variety of value propositions that will not overwhelm customers. Consider how much more could be learned by observing the market responses to higher percentages of distant renewables versus lower percentages of local renewables, or for-profit versus non-profit aggregators, or offerings featuring different types or mixes of renewables. This has been one of the strengths of the Oregon approach.

?? ***Timing:*** A slight delay in the launch would allow for many new renewable projects to move through the development pipeline, would (hopefully) allow for the passage of a Federal Production Tax Credit (PTC) extension (the failure of an extension to pass has brought much development activity to a halt), and therefore be more likely to have higher new renewable energy content from the types of renewable generators retail customers prefer. The dampening effect of PTC expiration cannot be over-emphasized: development efforts have slowed or come to a halt on the majority of regional wind projects until the PTC (which has broad bipartisan support) is passed by Congress, and its specifics are known. No generation investor will be willing to be the one sucker who moved forward without this meaningful cash flow when every other project in the market qualified for more advantageous Federal tax treatment.

Conclusions:

The NSTAR program should be delivered by multiple 3rd party providers so as to not conflict with the structure of the Massachusetts electric market, and to assure greater likelihood of customer interest and success. The program put further by Massachusetts Electric has many desirable features. By learning from experiences of others, a program can be implemented in NSTAR territory that can build upon a foundation of regional consistency in approach that allows the effective development of a market for renewable energy.

If the DTE does allow NSTAR to proceed with the offering as proposed, it is critical that
(a) others should be given comparable access to the NSTAR bill; and
(b) costs incurred by NSTAR in creating, and offering its product – procurement costs (an allocated share of the costs of Standard Offer and Default Service procurement), contracting, legal, and staff costs associated with this regulatory proceeding, and marketing costs – are borne by customers selecting the NSTAR offering and not non-participants or customers selecting competing green offerings.